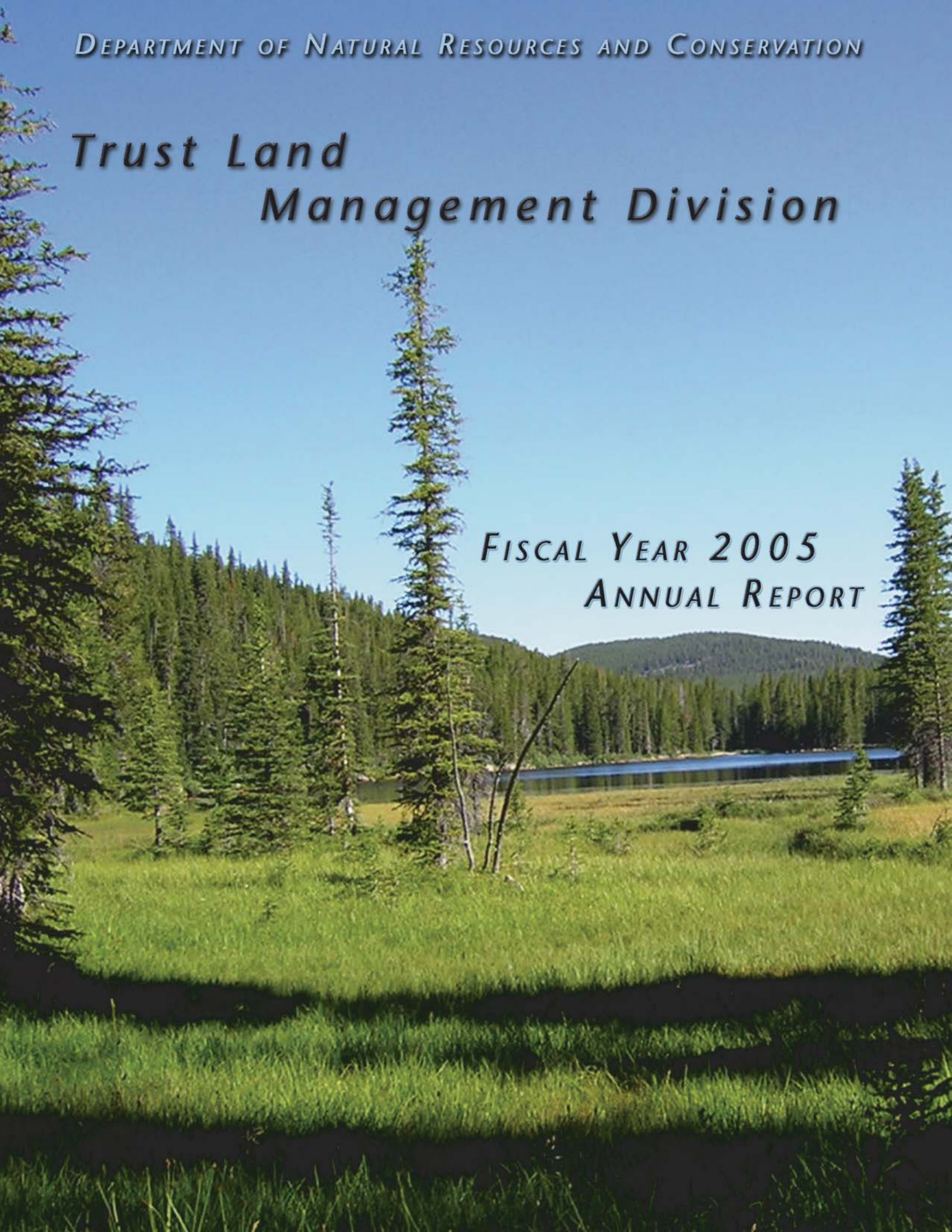


DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

*Trust Land
Management Division*

*FISCAL YEAR 2005
ANNUAL REPORT*



Trust Land Management Division Mission

**Manage the State of Montana's trust land resources
to produce revenues for the trust beneficiaries
while considering environmental factors and protecting
the future income-generating capacity of the land.**



TABLE OF CONTENTS

Overview	1
Agriculture and Grazing Management	9
Forest Management	11
Minerals Management	14
Real Estate Management	20
Central Land Office	26
Eastern Land Office	27
Northeastern Land Office	28
Northwestern Land Office	29
Southern Land Office	30
Southwestern Land Office	30

FIGURES

Figure 1. Current Land Ownership	1
Figure 2. Permanent Fund Balance	2
Figure 3. Distribution of Revenues from Common School Trust Lands	6
Figure 4. Distribution of Revenues from Other Trusts	7
Figure 5. Ten-Year Net Revenue Summary	9
Figure 6. Barley and Wheat Production in FY 2004 and FY 2005	10
Figure 7. Hay Production in FY 2004 and FY 2005	10
Figure 8. Agricultural Revenue	10
Figure 9. Grazing Revenue	10
Figure 10. Timber Volume Sold	14
Figure 11. Timber Volume Harvested	14
Figure 12. Timber Revenue Generated	14
Figure 13. Total Mineral Revenue by Mineral Type	15
Figure 14. Oil and Gas Revenue	15
Figure 15. Coal Royalties	15
Figure 16. Gas Production and Revenue in FY 2000 – FY 2005	16
Figure 17. Oil Production and Revenue in FY 2000 – FY 2005	16
Figure 18. Coal Production and Revenue in FY 2000 – FY 2005	17
Figure 19. Real Estate Management Revenues by Source in FY 2005	21
Figure 20. Real Estate Management Revenues FY 2001 – FY 2005	21

TABLES

Table 1. Funding of Trust Land Administration	2
Table 2. Reconciliation of Revenues and Distributions	2
Table 3. Distributable and Nondistributable Trust Revenues in FY 2005	3
Table 4. Five-Year Summary of Gross Revenue Generated by Activity	4
Table 5. Forest Improvement Activities in FY 2005	13
Table 6. Gross Revenues Received from Minerals in FY 2005	15
Table 7. Impact of Senate Bill 495 to the Public School Trust	18
Table 8. Real Estate Management Revenues in FY 2005	21
Table 9. Lease and License Revenues in FY 2005	22

TRUST LAND MANAGEMENT DIVISION

Manage the State of Montana's trust land resources to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income generating capacity of the land.

Overview

General background information on the Trust Land Management Division (TLMD) is available on the department's website:

www.dnrc.mt.gov/trust/

History

By the Enabling Act approved February 22, 1889, the Congress of the United States granted to the State of Montana, for common school support, sections sixteen and thirty-six in every township within the state. Some of these sections had been homesteaded, some were within the boundaries of Indian reservations, and yet others had been otherwise disposed of before passage of the Enabling Act. To make up for this loss, and in lieu thereof, other lands were selected by the State of Montana.

The Enabling Act and subsequent acts also granted acreage for other educational and state institutions, in addition to the common schools. The original common school grant was for 5,188,000 acres. The additional acreage provided for other endowed institutions included 668,720 acres, for a total of 5,856,720 acres. The total acreage (see Figure 1) has fluctuated through the years due to land sales and acquisitions. Mineral acreage now exceeds surface acreage because the mineral estate has been retained when lands are sold. Surface acreage at the end of FY 2005 totals over 5.1 million acres; mineral acreage exceeds 6.2 million acres.

Over the past five years, the trust land management program has returned land management revenues averaging \$44.5 million to the school trusts. Those revenues have been obtained through an average annual expenditure of \$8.4 million. Therefore, the ratio of dollars returned to dollars expended is 5.3 to 1.

The Permanent Fund

The Enabling Act provided that proceeds from the sale and permanent disposition of any of the trust lands, or part thereof,

Figure 1
Current Land Ownership
(as of August 3, 2005)

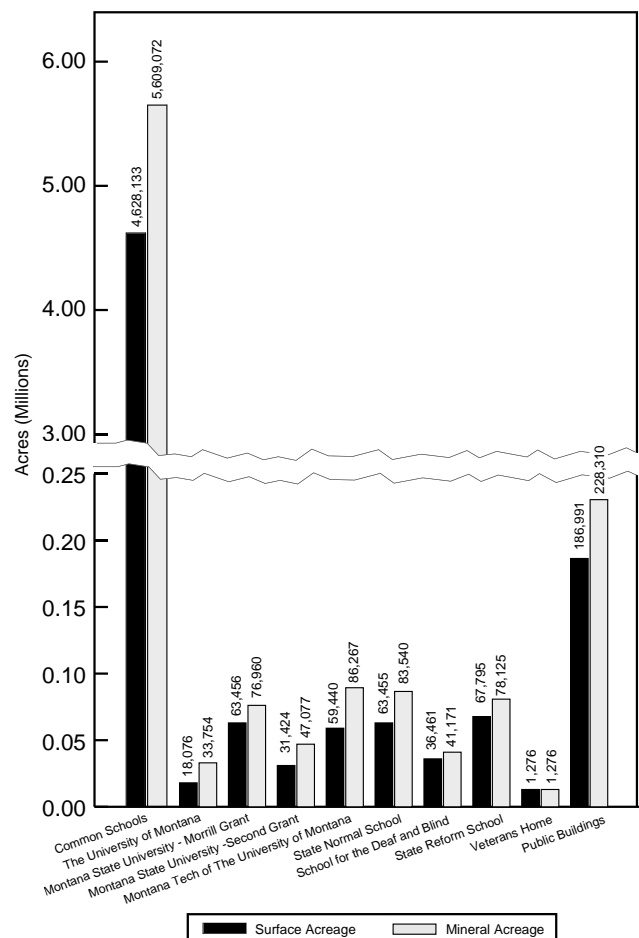
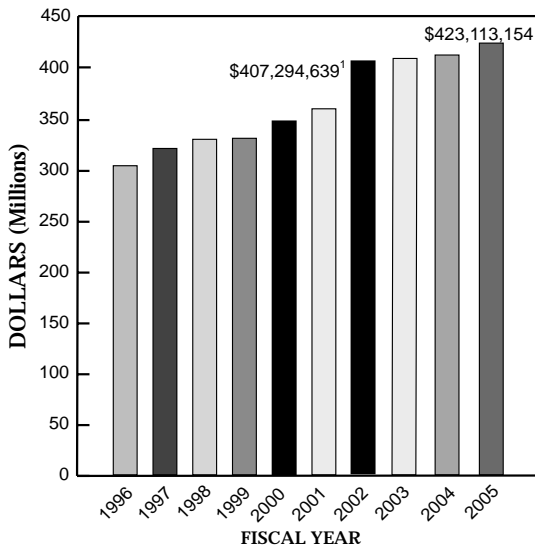


Figure 2
Permanent Fund Balance



1. The Fiscal Year 2002 total includes \$46.4 million in coal trust loan proceeds, pursuant to Senate Bill 495 (2001 Legislature).

shall constitute permanent funds for the support and maintenance of public schools and the various state institutions for which the lands had been granted. The Montana Constitution provides that these permanent funds shall forever remain inviolate, guaranteed by the State of Montana against loss or diversion. These funds are often referred to as “nondistributable.”

The program generated over \$4 million in gross nondistributable revenue in FY 2005, which was offset by administration expenses. The net revenue resulted in a balance of over \$423 million in combined permanent funds. The permanent trust balance is shown in Figure 2.

Other Revenues

Table 3 shows the gross distributable and nondistributable interest and income for each of the trust beneficiaries. In FY 2005, the division used a portion of trust land revenues to fund administrative appropriations as shown in Table 1.

In addition to management activities on behalf of trust beneficiaries, the division generated other revenues and distributions in FY 2005. The five-year summary presented in Table 4 shows gross revenues of \$89,141,465 for all division activities. Table 2 provides a reconciliation of other revenues and distributions from the Table 3 and Table 4 summaries.

Table 1 Funding of Trust Land Administration	
Trust Administration Account (MCA 77-1-108)	\$4,152,318
Timber Sale Account (MCA 77-5-204)	3,228,036
Forest Improvement Fees (MCA 77-5-204)	2,944,559
Resource Development Account (MCA 77-1-604)	745,401
Recreational Use Account (MCA 77-1-808)	103,738
Commercial Leasing Account (MCA 77-1-905)	77,019
TOTAL	\$11,251,071

Table 2 Reconciliation of Revenues and Distributions	
Gross distributable revenues	\$79,032,885
Gross nondistributable revenues	4,071,074
Senate Bill 495 debt service	5,655,839
General fund revenues	207,271
Non-land grant income and other revenues	174,396
TOTAL	\$89,141,465

Table 3
Distributable and Nondistributable Trust Revenues in FY 2005

Distributable Revenues Trust	Gross Distributable Revenue	Resource Development	Timber Sale Account ²	Forest Improvement Fees Collected	Trust Admin Account ^{2,4}	Recreational Use Account	Commercial Leasing Account	Technology Acquisition Fund	Net Distributable Revenue	
Common Schools ¹	\$71,560,830	\$686,492	\$2,536,323	\$2,437,025	\$3,679,601	\$94,285	\$67,175	\$4,891,695	\$57,168,234	
The University of Montana	227,496	3,740	5	0	0	378	458	0	222,915	
MSU - Morrill Grant	555,352	0	0	0	0	0	0	0	555,352	
MSU - Second Grant	2,234,637	12,109	252,394	205,208	0	641	1,761	0	1,762,524	
Montana Tech	916,399	14,636	21,925	20,701	0	1,208	2,859	0	855,070	
State Normal School	1,464,055	6,266	174,064	109,046	0	1,302	1,641	0	1,171,736	
School for the Deaf and Blind	324,211	3,654	0	0	0	746	993	0	318,818	
State Reform School (Pine Hills)	423,810	6,102	0	0	0	1,376	1,089	0	415,243	
Veterans Home	11,155	300	0	0	0	0	26	0	10,829	
Public Buildings	1,314,940	12,102	168,515	99,850	\$176,483	3,802	1,017	0	853,171	
Total	\$79,032,885	\$745,401	\$3,153,226	\$2,871,830	\$3,856,084	\$103,738	\$77,019	\$4,891,695	\$63,333,892	
Nondistributable Revenues Trust	Gross Nondistributable Revenue		Timber Sale Account ²	Forest Improvement Fees Collected	Trust Admin Account ^{2,4}				Net Nondistributable Revenue	Permanent Fund Balance ³
Common Schools - permanent	\$3,595,306		\$0	\$0	\$229,774				\$3,365,532	\$392,819,245
The University of Montana	2,868		0	0	627				2,241	1,499,962
MSU - Morrill Grant	44,722		0	0	0				44,722	3,586,237
MSU - Second Grant	1,163		0	0	254				909	8,472,888
Montana Tech	4,060		0	0	888				3,172	4,545,537
State Normal School	25,908		0	0	5,667				20,241	6,003,215
School for the Deaf and Blind	163,975		31,073	29,975	29,309				73,618	2,952,164
State Reform School (Pine Hills)	233,072		43,737	42,754	29,715				116,866	3,217,164
Veterans Home	0		0	0	0				0	16,742
Total	\$4,071,074		\$74,810	\$72,729	\$296,234				\$3,627,301	\$423,113,154
Total Distributable and Nondistributable Revenues and Sources of Administrative Funding	\$83,103,959	\$745,401	\$3,228,036	\$2,944,559	\$4,152,318	\$103,738	\$77,019	\$4,891,695	\$66,961,193	\$423,113,154
1. Includes common school mineral royalties of \$16,729,575 less \$5,655,839 in debt service costs, per SB495.										
2. Administrative appropriation.										
3. Trust balances reflect deposit activity by DNRG only, and do not include valuation adjustments from investment activities by the Board of Investments.										
4. Includes \$30,500 in Nomination Fees for the Land Banking Program.										

1. Includes common school mineral royalties of \$16,729,575 less \$5,655,839 in debt service costs, per SB495.
2. Administrative appropriation.
3. Trust balances reflect deposit activity by DNRC only, and do not include valuation adjustments from investment activities by the Board of Investments.
4. Includes \$30,500 in Nomination Fees for the Land Banking Program.

Table 4
Five-Year Summary of
Gross Revenue Generated by Activity

Activity	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
Agriculture and Grazing Management					
Grazing Leases	\$5,364,305	\$6,047,838	\$5,818,832	\$5,467,667	\$6,566,134
Agriculture Leases	8,654,425	7,232,111	8,297,415	8,419,535	9,227,415
TOTALS	\$14,018,730	\$13,279,949	\$14,116,247	\$13,887,202	\$15,793,549
Forest Management					
Timber Sales	\$6,596,578	\$8,282,481	\$6,915,128	\$9,013,900	\$13,651,631
Forest Improvement Fees	1,981,597	1,404,363	1,363,664	2,029,732	2,944,560
TOTALS¹	\$8,578,175	\$9,686,844	\$8,278,792	\$11,043,525	\$16,596,191
Minerals Management					
Oil and Gas Revenues					
Rentals/Bonuses/Penalties	\$3,098,515	\$2,462,315	\$2,402,510	\$3,187,540	\$6,554,239
Royalties	6,212,546	3,954,898	5,759,027	7,703,137	12,546,647
Seismic Exploration	6,533	13,280	9,744	4,690	4,796
Aggregate Minerals					
Rentals	600	400	175	600	100
Royalties	225,019	158,044	168,078	173,178	227,171
Coal					
Rentals/bonuses	6,261,360	45,810	43,897	43,897	40,057
Royalties	4,944,170	2,836,919	3,877,054	4,676,964	4,239,865
Other Minerals					
Rentals/Penalties	20,543	21,775	17,179	20,009	25,584
Royalties	8,079	7,813	4,984	972	3,389
TOTALS	\$20,777,365	\$9,501,254	\$12,282,648	\$15,810,987	\$23,641,848
Real Estate Management					
Rights-of-way/Easements	\$218,456	\$307,274	\$189,078	\$2,117,993	\$1,068,335
Residential Leases	790,030	854,626	949,102	929,995	1,024,125
Land Sales	0	15,954	19,744	2,900	25,797
Other Leases/Licenses	509,071	508,399	579,409	565,931	938,280
Recreational Use					
General Licenses	387,016	517,730	558,690	286,352	64,246
Conservation Licenses	0	0	0	515,628	916,806
Special Recreation Use Licenses	104,206	114,629	91,190	112,304	109,378
TOTALS	\$2,008,779	\$2,318,612	\$2,387,213	\$4,531,103	\$4,146,967
Other					
Trust and Legacy Interest ²	\$26,012,671	\$29,661,124	\$29,210,558	\$30,140,513	\$28,375,978
Other Revenues	838,994	416,871	342,572	316,450	586,932
TOTALS	\$26,851,665	\$30,077,995	\$29,553,130	\$30,456,963	\$28,962,910
TOTALS	\$72,234,714	\$64,864,654	\$66,618,030	\$75,729,780	\$89,141,465

1. Forest management revenues were restated to reflect the collection of Forest Improvement Fees.

2. FY 2003 interest earnings were restated to reflect a change in accounting methods regarding interest accruals.

Technology Acquisition and Depreciation Fund

The Trust Land Management Division generated \$4,891,695 from the sale of timber on common school lands for the Technology Acquisition and Depreciation Fund for FY 2005, pursuant to MCA 20-9-343. This fund is administered by the Office of Public Instruction and used for purchases as defined in MCA 20-9-533.

Interest and Income

The Enabling Act further provided that rentals received on leased lands, interest earned on the permanent funds arising from these lands, interest earned on deferred payments on lands sold, and all other actual income shall be available for the maintenance and support of such schools and institutions. These funds are referred to as “distributable.” The Trust Land Management Division distributed over \$79 million in earnings and interest directly to public schools and other entities in FY 2005.

The Montana Board of Investments manages the investments of the permanent fund on behalf of the trust beneficiaries. This fund is also referred to as the Trust and Legacy Fund. The board’s management tenets are expressed in the following excerpt:

***History** - Article X, Sections 2 and 3 of the state Constitution requires that all royalties and other proceeds received from school lands granted to the state under federal enabling legislation be deposited in the Trust and Legacy Fund, where it shall forever remain inviolate and guaranteed by the state against loss or diversion.*

Investment Objective/Constraints

- *Tax- exempt account with a long-term investment horizon, which can tolerate market fluctuations.*
- *The Montana Constitution does not permit equity type investments.*
- *Low liquidity requirements, except for distribution and investment purposes.*
- *Current income is important because 95 percent of investment earnings are appropriated and distributed to school districts quarterly.*
- *Maximize the total rate of return through a broadly diversified portfolio of fixed income investments, while exceeding the return posted on Salomon Broad Bond Index and/or Lehman Brothers Aggregate Bond Index over a five-year moving average.*

... Montana Board of Investments, Fiscal Year 2003
Investment Policy Statement.

Distribution of Revenues

Each section of state trust land is assigned to a specific trust. Distribution of revenues is handled in three different ways, as explained in the following subsections, depending on the section of trust land that generated the revenue.

The Trust Land Management Division also utilizes some general fund dollars to administer land for some other state agencies, in addition to state trust land. Revenue generated from that land is transferred directly to the state agency.

The Trust Land Management Division is funded predominantly by a combination of trust revenues (see Table 1).

Common School Trust

The distribution of revenues generated from common school trust land is illustrated in Figure 3. From the distributable receipts, a small percentage is used to fund the Resource Development Account, the Timber Sale Account, the Recreational Use Account, and the Commercial Leasing Account. Ninety-five percent of the remaining distributable revenue is distributed yearly to the state Guarantee Account for use by the public schools of the state. The other 5 percent, together with nondistributable revenue, comprise the Permanent Fund. The interest earned on the Permanent Fund is also distributed to the Guarantee Account for use by public schools, with the exception of 5 percent, which is returned to the Permanent Fund for reinvestment.

Figure 3
Distribution of Revenues from Common School Trust Lands

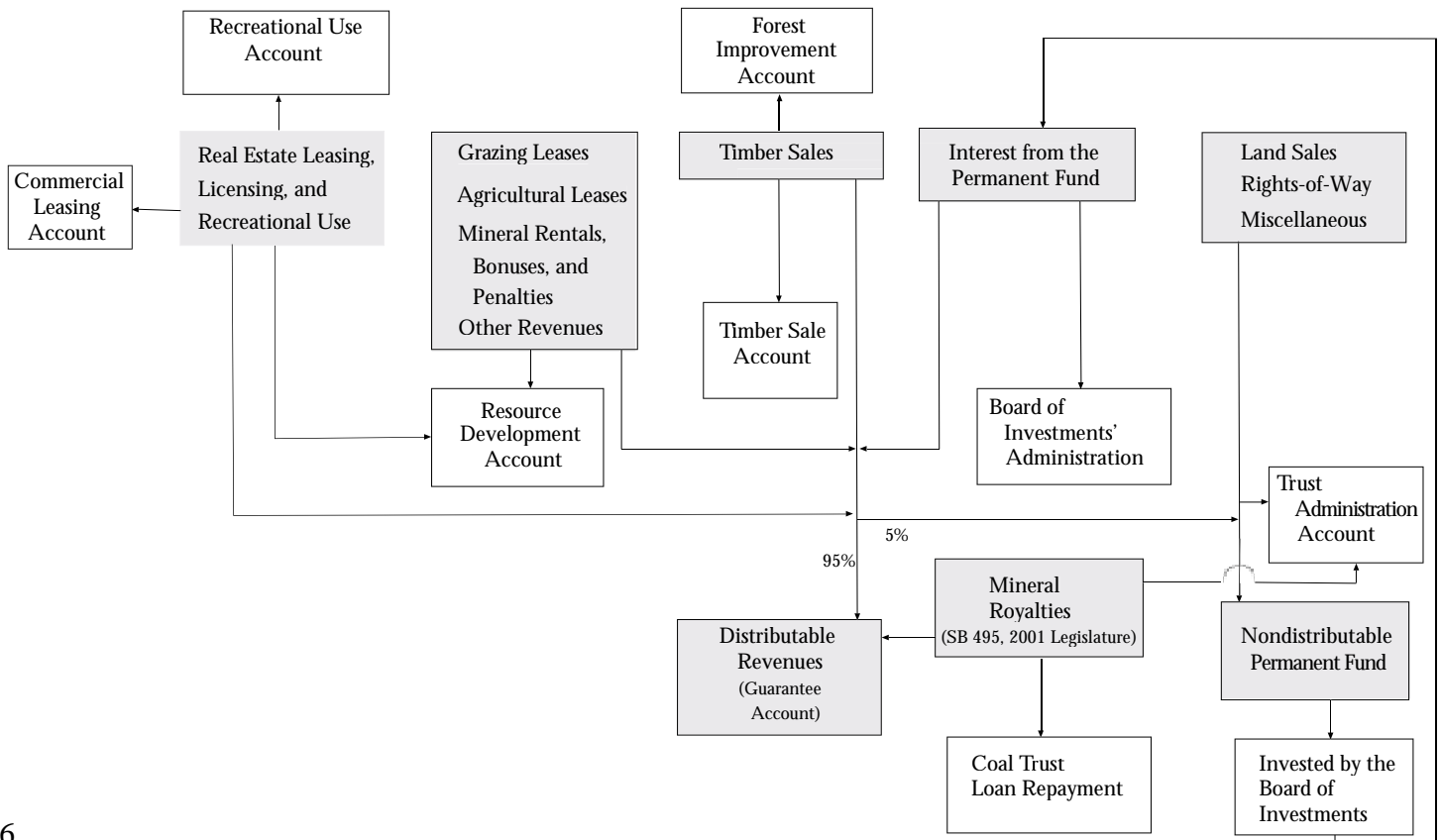
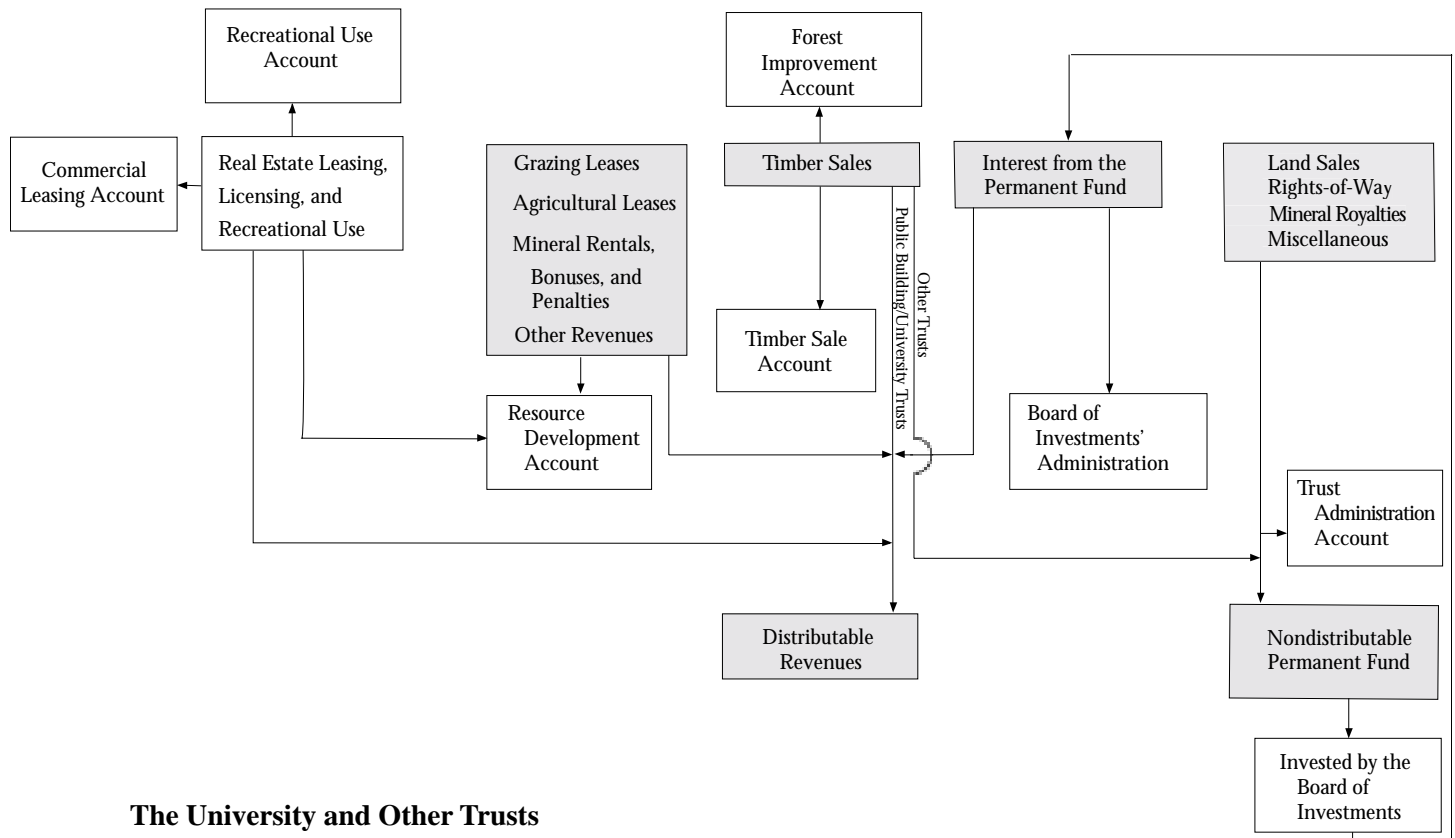


Figure 4
Distribution of Revenues From Other Trusts
(excluding Common School)



The University and Other Trusts

The university trusts include:

- The University of Montana 
- Montana State University – Second Grant 
- Montana State University – Morrill Grant
- Montana Tech of The University of Montana 
- State Normal School (Montana State University-Billings and The University of Montana - Western)  

Other trusts include:

- School for the Deaf and Blind
- State Reform School (Pine Hills)
- Veterans Home
- Public Buildings

Brian Schweitzer



Mike McGrath



Linda McCulloch



Brad Johnson



John Morrison



Distribution of revenues to the university trusts and other trusts is similar to that of the Common School Trust (see Figure 4). A small percentage goes to the Resource Development Account, the Timber Sale Account, the Recreational Use Account, and the Commercial Leasing Account. The exception is the Montana State University Trust for the Morrill Grant, which does not fund administrative cost accounts. For the University Trusts, the timber sale revenues are considered distributable and for the other trusts, nondistributable. Distribution of revenues on public buildings trust land is similar. The Public Buildings Trust does not have a permanent fund, so remaining distributable receipts go to the Department of Administration.

Division Overview

The purpose of the Trust Land Management Division is to administer and manage the state trust timber, surface, and mineral resources for the benefit of the common schools and other endowed institutions in Montana, under the direction of the Board of Land Commissioners. The Board of Land Commissioners, which is often called the “State Land Board,” consists of Montana’s top elected officials:

Brian Schweitzer, Governor

Mike McGrath, Attorney General

Linda McCulloch, Superintendent of Public Instruction

Brad Johnson, Secretary of State

John Morrison, State Auditor

The division is divided into four primary programs: agriculture and grazing management, forest management, minerals management, and real estate management. Staff and program specialists in Helena and Missoula provide program administration, direction, oversight, and support. Field personnel throughout the state provide on-the-ground management.

The department’s obligation is to obtain the greatest benefit for the school trusts pursuant to MCA 77-1-202. The greatest monetary return must be weighed against the long-term productivity of the land to ensure continued future returns to the trusts. Total gross revenues generated by the Trust Land Management Division over the last five years are listed by activity in Table 4. This table contains not only trust revenues, but also those revenues collected for other state entities, revenues appropriated to fund a portion of the division’s programs, and other miscellaneous revenues collected by the division.

Ten-Year Net Revenue Summary

Figure 5 reflects net revenue growth from FY 1996 to FY 2005. Revenues from land management activities were combined with interest income generated from the Permanent Fund investments less annual expenditures. As a result, net revenue from all income sources increased from approximately \$59 million in FY1996 to \$80 million in FY 2005.

Figure 5
Ten-Year Net Revenue Summary



Agriculture and Grazing Management

The Agriculture and Grazing Management Bureau supervises the management and leasing of approximately 10,000 agreements for crop and rangeland uses on 4.65 million acres of school trust lands throughout the state. Administrative staff and specialists in the department's Helena office and staff in field offices statewide accomplish these duties.

Surface Leasing

The program is responsible for the administrative functions associated with maintaining surface lease agreements. Each year, responsibilities include processing approximately 1,000 lease renewals; advertising, competitively bidding, and issuing approximately 50 new leases; reviewing and processing assignments, subleases, pasturing agreements, custom farming agreements, pledges, and mortgages; and collecting, verifying, and posting rentals and fees.

Agricultural Lands

Currently 3,000 agreements include agricultural use of state trust lands. Crops raised on these lands are primarily dryland hay and small grains, but also include irrigated grain crops, corn, sugar beets, potatoes, peas, lentils, garbanzo beans, canola, safflower, alfalfa seed, and native grass seed. Figure 6 shows barley and wheat Production in FY 2004 and FY 2005 and Figure 7 shows hay production in FY 2004 and FY 2005.

Figure 6
Barley and Wheat Production
in FY 2004 and 2005

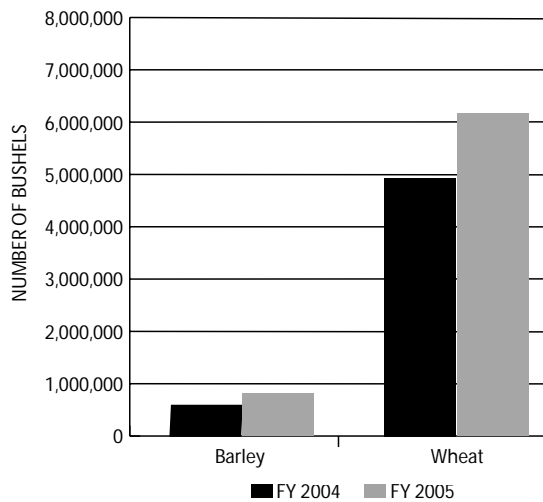


Figure 7
Hay Production in
FY 2004 and 2005

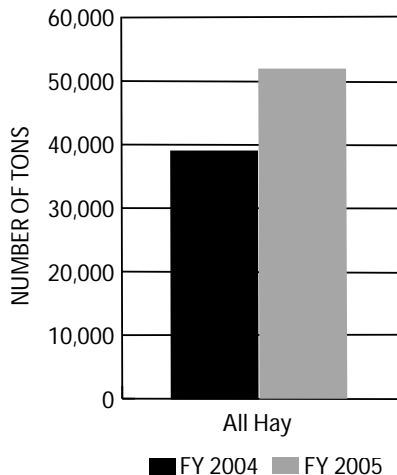


Figure 8
Agricultural Revenue

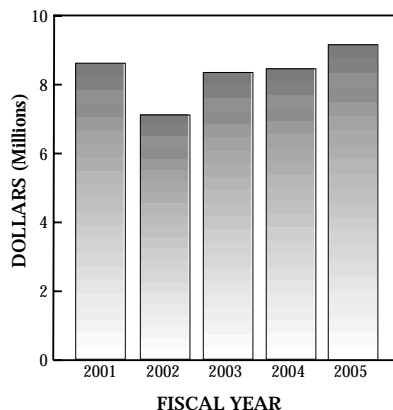
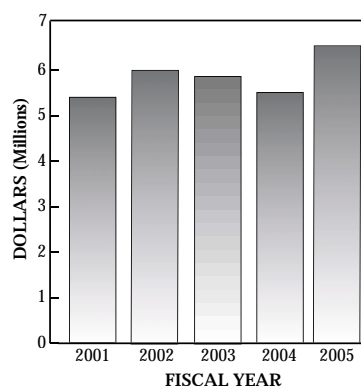


Figure 9
Grazing Revenue



In FY 2005, revenues totaling \$9,227,415 were received from agricultural leasing (see Figure 8). The majority of the leases are on a crop-share basis with the minimum share of 25 percent set by statute. In addition to receiving rental payments from lessees, the state participates in and receives farm program payments from the U. S. Department of Agriculture Farm Service Agency. For FY 2005, this amount exceeded \$3 million for direct payment contracts, lands enrolled in the Conservation Reserve Program (CRP), and loan deficiency payments. The division has 140,000 acres of land enrolled in the CRP.

Grazing Lands

Approximately 8,500 agreements include grazing use of trust lands. The 4.3 million acres of classified grazing lands and forestlands have an estimated carrying capacity of 1,110,000 animal unit months (AUMs). The minimum rental rate for grazing leases is set by a formula which includes the average weighted price for beef cattle sold in Montana during the previous year. In FY 2005, grazing leases generated \$6,566,134 (see Figure 9).

Land Management

The program manages the agricultural and grazing resources on lands administered by the bureau. This responsibility includes evaluation and assessment of range and cropland condition; compliance with the Montana Environmental Policy Act (MEPA); administration of archaeological, paleontological, and historical properties on state trust land; investigations of lease noncompliance; participation in the Federal Farm Program; and oversight of water developments, water rights, and improvement projects such as range renovation and resource development.

Preference Right Rules

In December 2004, the Board of Land Commissioners adopted new administrative rules in response to a District Court ruling that declared the statutorily mandated preference right of lessees unconstitutional. The court struck down the statute because it denied the Board of Land Commissioners the opportunity to select who should be the lessee of a lease.

Under the new rules, existing lessees will be granted a preference right to renew a lease and match bids only if they have observed rules for good management that promote the long-term productivity of the land. The new rules also require the Board of Land Commissioners to select between the existing lessee and the high bidder in situations where the lessee contests the high bid submitted for the lease.

Weed Management Plans

Based on recommendations from the Legislative Weed Audit, each area land office has developed integrated weed management plans. The plans provide guidance on managing and prioritizing different weed species, and the level of monitoring to be completed after infestations are identified. They are also intended to be used for decisions regarding funding of competing weed control projects. A statewide weed plan will be developed this upcoming year.

Stillwater River Bioengineering Project

During 2004, a large logjam on the West Fork of the Stillwater River caused a channel change on trust land just above two new bridges installed by the Montana Department of Transportation (MDT). The new channel caused flooding of an adjacent farmstead and put the new bridges at risk (see photo 1). Using MDT and federal highway grants, the channel was repaired by implementing new bioengineered restoration techniques that use only native plants and streambed materials (see photo 2). This cooperative restoration effort not only benefits state trust lands, Stillwater County, and MDT, but also provides new techniques for future river projects.



Photo 1: Streambank erosion



Photo 2: Streambank restoration

Forest Management

The Forest Management Bureau oversees approximately 720,000 acres of forested trust lands in Montana. The mission of the Forest Management Program is: “To sustainably manage Montana’s forested trust lands to maximize long-term revenue while promoting healthy and diverse forests”. Revenue from forested trust lands is mainly derived from the sale of forest products, which is then distributed to various school trusts. This requires the teamwork of 72 bureau and field staff. The Forest Management Bureau provides overall program direction and technical support to field staff at the area land offices. Several resource management sections provide technical expertise. Support and program direction are offered in several different ways: developing resource management standards, conducting site-specific reviews, and formulating recommendations as members of interdisciplinary teams that develop land management proposals.

The field staff at the area land offices have primary responsibility for on-the-ground management activities. With assistance from the Forest Management Bureau, they conduct environmental reviews of proposed management activities,

prepare contracts for those activities, and complete the necessary field work. The State Forest Land Management Plan (SFLMP), approved by the Board of Land Commissioners in June 1996 and associated rules guide management of forested trust lands. This guidance is provided in the form of general management philosophy and specific resource management standards. The strategic guidance provided by SFLMP is summarized in this excerpt:

Our premise is that the best way to produce long-term income for the trust is to manage intensively for healthy and biologically diverse forests. Our understanding is that a diverse forest is a stable forest that will produce the most reliable and highest long-term revenue stream. Healthy and biologically diverse forests would provide for sustained income from both timber and a variety of other uses. They would also help maintain stable trust income in the face of uncertainty regarding future resource values. In the foreseeable future timber management will continue to be our primary source of revenue and primary tool for achieving biodiversity objectives.

Habitat Conservation Plan

The Forest Management Bureau is currently developing a programmatic Habitat Conservation Plan (HCP) in cooperation with the U.S. Fish and Wildlife Service. The plan is a series of conservation strategies designed to minimize the impacts of DNRC management activities on threatened or endangered fish and wildlife species, while providing DNRC with long-term management assurances and overall flexibility. The plan is required in the application for an Incidental Take Permit authorized under Section 10 of the Endangered Species Act. The objective of this plan is to provide habitat protection for included species while providing for the continued Forest Management Program on forested trust land. The draft conservation strategies for grizzly bears, Canada lynx, and aquatic species (Bull Trout, Westslope Cutthroat Trout, Red Band Trout) have been completed and technically reviewed by Montana Fish, Wildlife & Parks. Ongoing technical work for the project includes Geographic Information System (GIS) and modeling efforts and the drafting of numerous components of the HCP and the Environmental Impact Statement (EIS). Completion of the HCP project is anticipated in 2008.

Forest Improvement

The Forest Improvement Program uses fees from harvested timber to improve the health, productivity, and value of forested trust lands. Uses of these fees authorized by statute include disposal of logging slash, reforestation, acquiring access and maintaining roads necessary for timber harvest, other treatments necessary to improve the condition and income potential of state forests, and compliance with other legal requirements associated with timber harvest. Specific activities include piling of logging slash, prescribed burning, site preparation, seed collection, seedling production, tree planting, thinning, genetic tree

Table 5
Forest Improvement Activities in FY 2005

Plantation regeneration surveys	602 acres
Tree planting	1,173 acres
Tree browse prevention ¹	870 acres
Precommercial thinning	1,642 acres
Noxious weed spraying	3,935 acres
Herbicide application ²	680 acres
Brush piling	273 acres
Hand brush work	116 acres
Pile burning	3,163 acres
Broadcast burning	74 acres
Tree improvement areas managed	13 acres
Road maintenance ³	51 miles
Right-of-way granted	24.2 miles
Right-of-way received	153.1 miles
Cone collection	0 bushels
Biocontrol bug releases	32 acres
Roads inventoried and database updated	316 miles
Total State tributary acres with some level of new public access	8,615 acres
Motorized	5,015 acres
Nonmotorized	3,600 acres

1. Tree browse prevention includes replacing, maintaining, or removing seedling netting or applying a chemical repellent.

2. Herbicide application is associated with tree planting.

3. Road maintenance includes grading, snowplowing, removing and maintaining bridges, installing culverts, etc. Many of these activities do not lend themselves to reporting by miles.

improvement, erosion control, and culvert replacement. In FY 2005, activities listed in Table 5 improved the health and productivity of forested state trust lands.

Inventory

The program is responsible for collection and analysis of forest resource inventory data in Montana. The program provides a current, comprehensive inventory of the timber resources on 727,000 acres of forested land administered by the DNRC. Stand-level inventory maps have been drawn and resource data collected for 1,206,000 forested and nonforested acres of state trust land. The development and maintenance of a geographic information system (GIS) used to support planning for forest management activities and environmental analyses is another responsibility of this program.

In FY 2005, the inventory program collected 20,351 acres of stand-level inventory data. Each year the Technical Services Section processes and updates changes to the stand-level inventory data layer, road layer, and other GIS layers. Final editing and error checking is being completed on the subsurface ownership layer on approximately 5.2 million acres.

Figure 10
Timber Volume Sold

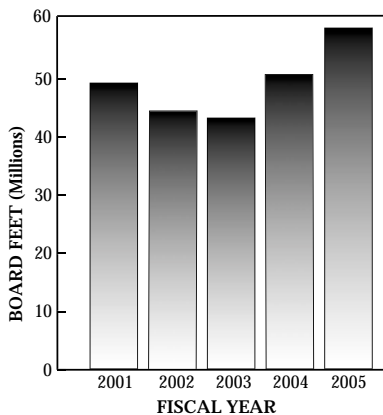


Figure 11
Timber Volume Harvested

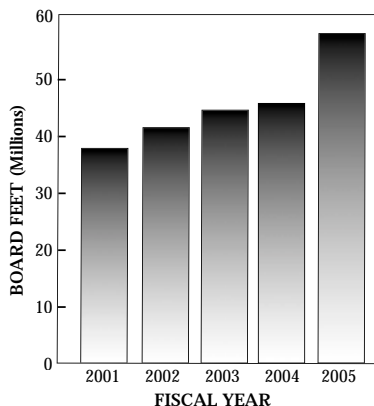
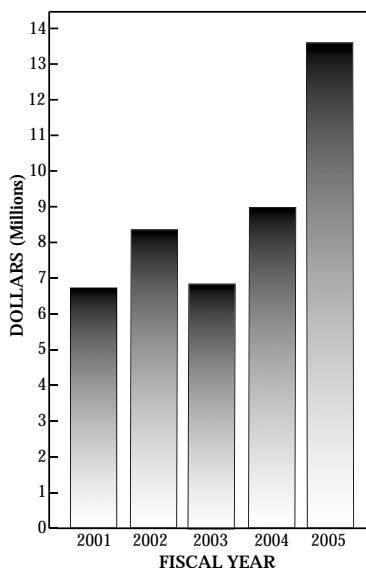


Figure 12
Timber Revenue Generated



Forest Product Sales

The program incorporates all activities and expenditures required to grow, harvest, and sell forest products from state trust lands efficiently. Activities within this program include field layout of timber sales; development of sale prescriptions; MEPA analysis and documentation; preparation of timber sale contracts and bid packages; administration of timber sales; and statewide timber sale coordination and accounting. These responsibilities are shared among field foresters, area staff, and bureau staff.

The estimated annual sustainable harvest from forested trust lands is 53.2 million board feet as required by MCA 77-5-222. This figure is the department's annual sales target, as determined by the Sustained Yield Study.

In FY 2005, 26 timber sales were approved by the Board of Land Commissioners with a total sold volume of 54.0 million board feet. Sales in FY 2005 had a stumpage value of \$14,428,225 with an additional \$3,070,348 in Forest Improvement Fees. In addition to the timber sale volume of 54 million board feet, an additional 3.8 million board feet of timber permit volume was sold in FY 2005 for a combined sold volume of 57.8 million board feet (see Figure 10).

During FY 2005, a total of 57.3 million board feet of timber was harvested from state trust lands (see Figure 11), generating \$13,651,631 in stumpage revenue (see Figure 12) and an additional \$2,944,560 in Forest Improvement fees. The total harvest volume includes timber sale (53.5 million board feet) and permit volume (3.8 million board feet). Timber harvest levels and markets remained strong throughout the year.

The average price per thousand board feet for volume harvested in FY 2005 was \$234 compared to \$216 in FY 2004, an 8.3% increase. The average price received for volume sold in FY 2005 was \$267 per thousand board feet. The average forest improvement fee on volume sold was \$56.8 per thousand board feet in FY 2005 for a total stumpage value of \$323.8 per thousand board feet. All timber sales and permits are developed, analyzed, and reviewed in the field by foresters and resource specialists to ensure that those sales comply with all applicable laws, policies, and management direction.

Minerals Management

The Minerals Management Bureau is responsible for leasing, permitting, and managing approximately 3,431 oil and gas, metalliferous and non-metalliferous, coal, and sand and gravel agreements on 6.2 million acres of school trust land and more than 100,000 acres of other state-owned land throughout Montana. General background information on bureau activities is available on the department's website:

www.dnrc.mt.gov/trust/

A calendar of key lease activities and dates is posted, and lease sale lists and sale results are available for viewing and downloading.

Mineral Leasing

The program is responsible for reviewing and processing all mineral lease and permit applications; advertising, competitively bidding, and issuing new leases; reviewing and approving lease assignments; and collecting, verifying, and posting lease rentals and production royalties. Revenues received in FY 2005 are listed in Table 6; the relative percentage derived from each mineral type is illustrated in Figure 13.

Oil and Gas Leasing

The program is responsible for the leasing and monitoring of 3,300 oil and gas leases, 575 of which are currently productive. The number of oil and gas leases managed is up 15.7 percent, while the number of currently producing leases increased by 3.4 percent, compared to FY 2004. Activities related to existing leases include collecting, verifying, and posting rental, royalty, delay drilling, and shut-in payments; reviewing and approving assignments and tracking working interest ownership; reviewing and preparing for approval communitization agreements and unit operating agreements; and coordinating with field offices the review and approval of all proposed physical operations on state leases. In addition, four oral auctions of new oil and gas leases are prepared and conducted each year.

In FY 2005, 1,400,063 barrels of oil were produced; 7,240,046 MCF of gas and 1,037,569 gallons of condensate were also produced. Oil production increased 25.9 percent from FY 2004 and the average price also increased by 44.1 percent, to \$31.02 per barrel in FY 2005. Gas production in FY 2005 increased 26.4 percent, while the price increased 28.8 percent from FY 2004, for an average price of \$5.09 per MCF. Price and production volumes increased significantly in

Table 6 Gross Revenues Received from Minerals in FY 2005		
Oil and Gas	Rentals/bonuses/penalties	\$6,554,239
	Royalties	12,546,647
	Seismic exploration	4,796
Aggregate Minerals	Rentals	100
	Royalties	227,171
Coal	Rentals/bonuses	40,057
	Royalties	4,239,865
Other Minerals	Rentals/penalties	25,584
	Royalties	3,389
TOTAL		\$23,641,848

Figure 13
Total Mineral Revenue by Mineral Type

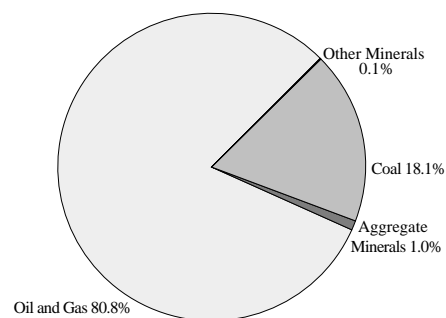


Figure 14
Oil and Gas Revenue
(excluding Seismic Exploration)

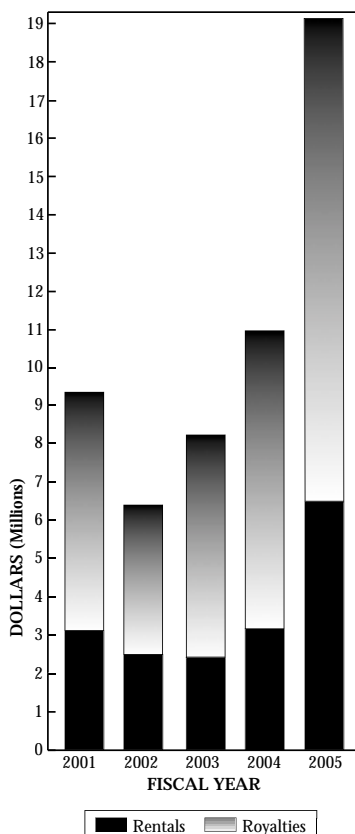


Figure 15
Coal Royalties

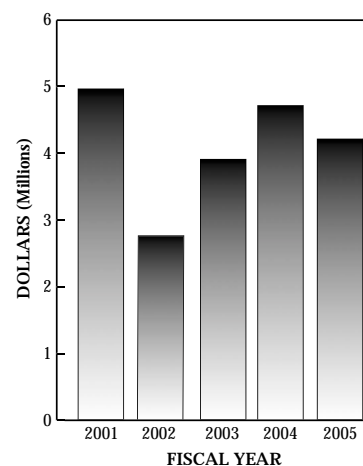


Figure 16
Gas Production & Revenue in FY 2000 - FY 2005

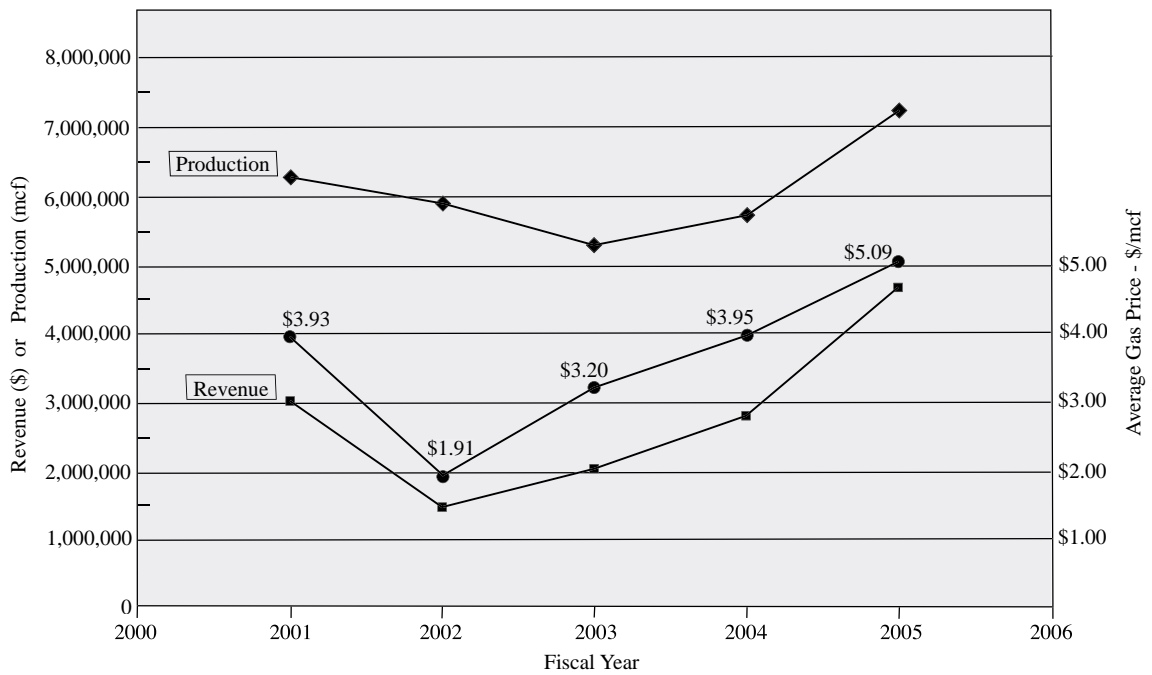
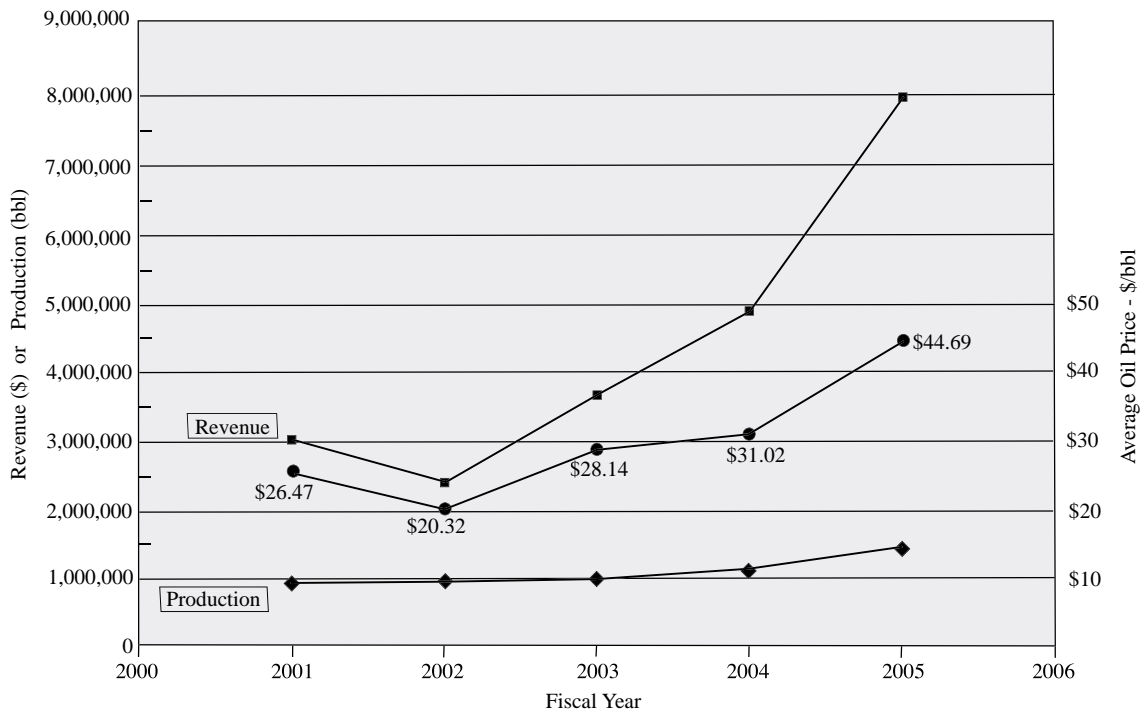


Figure 17
Oil Production & Revenue in FY 2000 - FY 2005



FY 2005, resulting in a 39.6 percent increase in oil and gas royalty revenues, compared to FY 2004. Oil and gas revenues received over the last five fiscal years are shown in Figure 14. Figure 17 shows a summary of oil production, revenue, and the average price per barrel from FY 2000 to FY 2005. Figure 16 shows gas production, revenue, and average gas price per MCF.

Other Mineral Leasing

The program also administers a wide variety of leases—including metalliferous and non-metalliferous leases, coal leases, gravel permits, and land use licenses for nonmechanized prospecting—for all other mineral activity on state trust land. In FY 2005, 3,720,126 tons of coal were mined, which is a 4.9 percent decrease in production over FY 2004. The average price per ton increased 6 percent from FY 2004 for an average price of \$9.12 per ton. Royalties increased nearly 1 percent compared to FY 2004. The volume mined can vary significantly from year to year, as mining activity moves onto or off state land within the normal sequence of mining operations. A five-year summary of coal royalties is shown in Figure 15. Royalties and rentals are also collected for minerals such as bentonite, clay, gold and associated minerals, peat, and shale. Figure 18 shows production, revenue, and the average coal price per ton for FY 2000 through FY 2005.

Senate Bill 495 (Coal Tax Trust Loan) Implementation

The 2001 Legislature passed Senate Bill (SB) 495, authorizing the department to borrow from the coal severance tax trust and place the loan proceeds in the Common School Permanent Fund (trust fund). The Federal Enabling Act requires mineral royalties to be deposited into the trust fund. Therefore, the loan was intended to keep the trust fund whole while redirecting a specified amount of future mineral royalty revenues. The redirected royalties cover debt service on the loan, with any remaining amount distributed to school equalization.

The Board of Land Commissioners reviewed the legislation and directed the department to implement the provisions of SB 495 beginning in fiscal 2002. The SB 495 fiscal note estimated royalty revenue for the next 30 years. Board staff selected a discount rate of 9.85%, which produced a calculated present value (i.e., loan) amount. Effective July 1, 2001, the department borrowed \$46,366,904 from the coal tax trust and placed it in the Common School Permanent Fund in lieu of \$138,894,596 in future net mineral royalties. Loan principal and interest payments through FY 2005 total \$17,558,357. Table 7 summarizes the changes in the amounts distributed to school equalization and deposits into the permanent trust fund from the implementation of SB 495.

On July 1, 2001, the loan amount increased the permanent trust fund balance by \$46,366,904 and created a collateralized loan payable obligation for the

Figure 18 Coal Production & Revenue

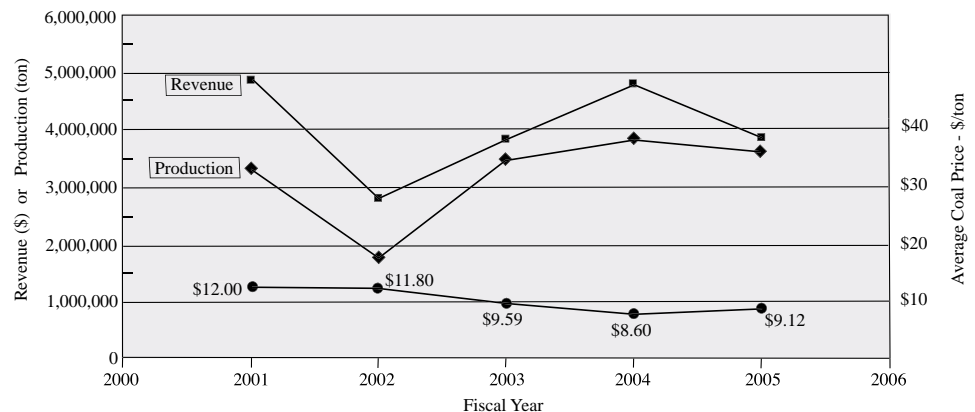


Table 7 Impact of SB 495 to Public School Trust					
Net Change: SB 495 vs. No SB 495					
Loan Year	Fiscal Year	Distributions	Permanent Trust Fund		
		Equalization Acct Net Gain/(Loss)	Deposits to Trust Fund	Loan Balance	Trust Fund Net Gain/(Loss)
Execute Loan		\$0	\$46,366,904	\$46,366,904	\$0
1	2002	3,359,643	(3,492,426)	0	(3,492,426)
2	2003	5,492,305	(5,958,910)	0	(5,958,910)
3	2004*	6,228,410	(8,980,597)	(1,820,860)	(7,159,737)
4	2005	8,853,335	(12,973,175)	(2,650,153)	(10,323,022)
Thru FYE 2005		\$23,933,693	\$14,961,796	\$41,895,891	(\$26,934,095)
Life of Loan (est)		(\$9,824,357)	(\$95,188,465)	\$0	(\$95,188,465)

*FY 2004 figures were restated to reflect a change in cumulative interest accrued during the year.

same amount. As of June 30, 2005, SB 495 increased distributions to school equalization by \$23,933,963 and redirected new royalty revenue totaling \$31,405,108 from the permanent trust fund. The net increase in trust fund balance from SB 495 is now \$14,961,796, with a remaining loan payable obligation of \$41,895,891. The resulting net change in asset (i.e. trust fund) position is therefore \$26,934,095 lower than it would have been without SB 495. Over the full term of the legislation, both distributions to school equalization and the permanent trust fund balance will be lower by an estimated \$9.8 million and \$95.2 million, respectively. MonTRUST, a nonprofit citizens' group, filed suit in April 2002 alleging the implementation of SB 495 does not comply with the fiduciary duties of the State of Montana. State district court ruled in favor of the State in June 2003. MonTRUST appealed that decision. On August 9, 2005, a divided Montana State Supreme Court affirmed the district court decision on a 4-3 vote.

Royalty Auditing and Accounting

The royalty audit program provides additional revenue to the school trusts through programmatic audits. The program identifies royalty under- and over-reporting, rectifies discrepancies, and raises the level of voluntary compliance. Most audits have a single payor and involve multiple leases per audit.

Audit activity in FY 2005 continued to reflect improved levels of compliance. Three audits were completed with assessments totaling \$30,487. An additional 13 audits are in progress, three with preliminary assessments of amounts due ranging from \$3,118 to \$621,422.

Riverbed Leasing

The Minerals Management Bureau continues its efforts to clarify title to the beds and islands of navigable rivers. Pursuant to statute, the state owns those

lands below the low-water mark, islands and their accretions formed in the riverbeds after statehood, and abandoned channels formed by avulsion. Because two navigable rivers in Montana flow through areas with major oil and gas resources, the department has conducted numerous riverbed studies to determine and document state ownership of land. This process allows the state to take a progressive position in issues involving substantial royalties.

In FY 2005, the program managed 14,207 acres of leased riverbed and island tracts. These tracts provided the state with \$366,945 in oil and gas revenues while generating an additional \$1,623 from other mineral leasing activity. This same ownership review process is also becoming increasingly important in areas where surface development and/or use encounters beds, islands, and abandoned channels of navigable rivers. The department continues to work with state, federal, and private entities whenever ownership issues arise.

McDonald Mine Proposal

In November 1994, the Seven-Up Pete Joint Venture (SUPJV) submitted a mine operation and reclamation plan to the Montana Department of Environmental Quality (DEQ) and DNRC for review. The proposed open-pit gold mine was to be located near the town of Lincoln in Lewis and Clark County and included both private and state school trust lands. In preparing a joint environmental impact statement, DEQ, DNRC, and the U.S. Army Corps of Engineers served as the co-lead agencies.

On September 23, 1998, DNRC notified SUPJV that the remaining 17 months of primary lease term for each of the leases was running and would expire unless permitting or commercial mineral production was ongoing. The mineral leases covering the state school trust lands subsequently terminated of their own accord on February 23, 2000.

SUPJV amended its previously filed lawsuit against the State of Montana to include a challenge to the lease terminations. That lawsuit also alleges that I-137, a state initiative that prohibits new open-pit mines that utilize cyanide, constitutes a taking of property rights held by SUPJV. On December 9, 2002, the First Judicial District Court dismissed all counts in SUPJV's lawsuit against the State of Montana. SUPJV appealed that decision to the Montana State Supreme Court. The court heard oral arguments on October 28, 2003, and issued a decision on June 8, 2005, affirming the state's termination of the leases.

SUPJV had previously filed a federal lawsuit against the state on the takings issue. That lawsuit had been held in abeyance pending the outcome of the state court lawsuits. The federal suit is pending.

Otter Creek Tracts

In 2002, the Board of Land Commissioners accepted title to approximately 7,623 acres of federal mineral estate in the Otter Creek area south of Rosebud, Montana.

These “Otter Creek tracts” represent compensation to Montana for the loss of taxes and jobs arising from the federal buyout of the proposed Crown Butte mine. Pursuant to state law, these tracts are common school trust lands.

The value of the Otter Creek tracts lies in their potential for coal development. Preliminary estimates attribute some 500 million tons of coal reserves to the state’s existing and acquired mineral estate. The 2003 Legislature passed Senate Bill 409, which authorized the department to spend up to \$300,000 of common school trust revenue for pre-lease data acquisition and evaluation. A drilling and coring project and cultural survey was conducted in the 2004 field season. Information and reports were completed and delivered to the department in October and November 2004. The department prepared an Otter Creek data CD containing technical and background information for interested parties. The CD includes previous drill data and studies, the newly acquired data from the 2004 field work, water rights information, as well as background information on the state’s acquisition of the properties. In general, the CD includes both pre-existing and newly generated resource information in a convenient format. The department publicized the availability of this information in December 2004 and began distributing to interested parties. To date, the department has provided over 40 copies to interested companies, consultants, federal and state agencies, and the public.

The state’s ownership in the Otter Creek project area is roughly one-half of the total. Great Northern Properties (GNP) owns the other half. The department and GNP jointly initiated a new resource assessment study that incorporates previously available data with the state’s 2004 drilling program and GNP data. This study will provide a more detailed assessment of the Otter Creek coal resource.

Real Estate Management

The Real Estate Management Bureau administers activities on lands classified as “other” and all secondary activities on lands classified as grazing, agriculture, or timber. The bureau’s Real Estate Services Section is responsible for sales, exchanges, and grants associated with management of 5.1 million acres. The Right-of-Way Section manages the disposition of rights-of-way. The Property Management Section manages the Leasing Program and formulates a programmatic plan for development of special uses on trust lands. The Leasing Program includes commercial developments, new leases such as wind farms, existing homesite leases, and short-term land use and recreation licenses. The bureau is also responsible for assisting other agencies with management of their land. MCA 77-2-351 allows the state to transfer nontrust lands to local governments with a commitment that the property be used for continuing public purpose.

The sources of FY 2005 real estate management revenues are summarized in Table 8, and each is shown as a percentage of the total real estate management revenues in Figure 19. Income over the last five years is illustrated in Figure 20.

Table 8	
Real Estate Management Revenues in FY 2005	
Rights-of-Way/Easements	\$1,068,335
Land Sales	25,797
Residential Leases/Licenses	1,024,125
Other Leases/Licenses	938,280
Recreational Use	
General Licenses	64,246
Conservation Licenses	916,806
Special Recreational Use Licenses	109,378
TOTAL	\$4,146,967

Figure 19
Real Estate Management Revenues
by Source in FY 2005

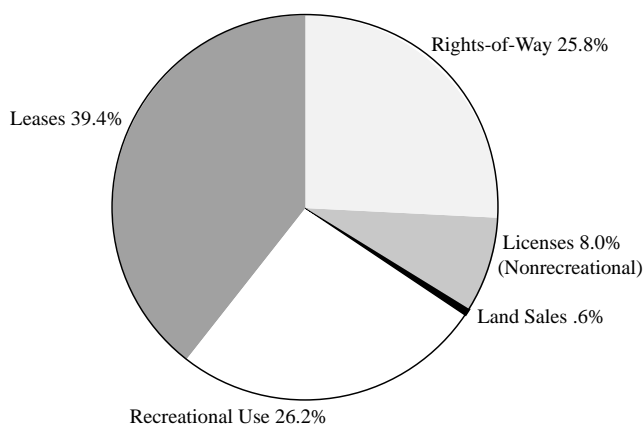
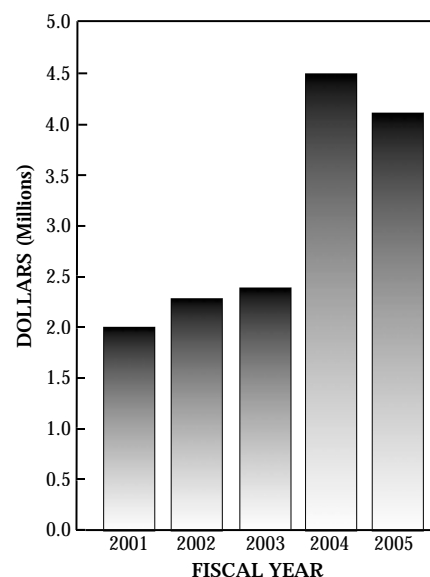


Figure 20
Real Estate Management Revenues
in FY 2001 - FY 2005



Leasing/Licensing

The Property Management Section actively plans and develops tracts of land with high potential for residential, single- and multi-family residential, and commercial leases. Commercial development of trust land in urban areas has the possibility of increasing revenues over a million dollars over the next 20 years. In addition, the section has solicited for and received proposals for development of wind energy on trust lands. Revenues for FY 2005 are listed in Table 9.

The lease and license revenue generated in FY 2005 reflects an increase of \$466,478 compared to FY 2004. This increase is primarily due to growth in commercial, rural industrial, and residential leases/licenses. The growth in commercial lease revenue was due to the Goldberg lease on the Spring Prairie development in Kalispell. The Cornerstone Program, a correctional youth facility, increased enrollment during the year and a 2 percent increase in the base rental rate, resulted in an additional institutional revenue. Residential lease revenue increased due to the department's fifth year of the appraisal phase-in process of bringing residential leases to 5 percent of appraised value. This increase is

Table 9
Lease and License Revenues FY 2005

Agreement Type	Lease Income	Leased Acres	Value Per Acre¹	License Income	Lease/license income	General Fund Leases/Licenses	Total Lease/License Revenue
Public Facilities	\$10,052	329.66	\$30.49	\$3,011	\$13,063	\$0	\$13,063
Commercial	225,101	194.71	1,156.08	8,191	233,292	12,058	245,350
Communication Sites	23,408	59.13	395.88	22,949	46,357	0	46,357
Conservation	84,726	14,153.94	5.99	8,534	93,260	0	93,260
Developed Recreation	106,712	791.42	134.84	11,088	117,800	0	117,800
Industrial	38,545	210.65	182.98	2,100	40,645	0	40,645
Institutional	68,987	361.71	190.72	6,500	75,487	0	75,487
Residential Accessory	3,689	103.39	35.68	20,900	24,589	25	24,614
Residential	1,023,775	2,645.43	387.00	350	1,024,125	0	1,024,125
Rural Commercial	5,134	81.98	62.63	37,141	42,275	0	42,275
Rural Industrial	10,284	1,555.89	6.61	199,788	210,072	300	210,372
Other Leases/Licenses	18,142	709.93	25.55	8,790	26,932	2,126	29,058
Total	\$1,618,555	21,197.84	\$76.35¹	\$329,342	\$1,947,897	\$14,509	\$1,962,406

1. Lease Income/Leased Acres = value per acre.

expected to continue as more leases have started the phase-in process from 3.5 percent to 5 percent and others have been brought up completely to 5 percent. The increase in rural industrial revenue was due to increased activity in the oil and gas development fields in Eastern Montana, which have brought opportunities for the issuance of pipeline licenses. The department has negotiated substantial license fees for the term of the licenses. However, the payments received in FY 2005 typically covered the entire term of the license and are not annual fees. Therefore, the revenue generated for this category in FY 2006 and subsequent years will be substantially less.

Spring Prairie Center— Kalispell

This parcel, adjacent to Kalispell, continues to develop under the guidance of city zoning and city approvals. Lowe's Home Improvement Center and Costco anchor phases 1 and 2 of the 60-acre Spring Prairie Center. Phase 3 is expected to be under construction in 2006. Lease negotiation is currently underway with Holiday Inn Express Hotel. School District 5 is in the process of building a new high school on a 60-acre easement in the NW1/4 of the section. The City of Kalispell has secured an easement to locate a new fire hall west of Costco. Other planned activities in the section include a residential land banking project for the SW1/4 and an office park complex. The Montana Department of Transportation is expected to purchase an easement through Section 36 for a Kalispell by-pass.

Whitefish Area Plan

While the surrounding community's demographics and economy have significantly changed, trust lands within the greater Whitefish area have historically been managed for timber and agricultural uses. The department's

goal is to manage trust lands to serve the surrounding community better, while increasing revenue to the trust. In association with the city of Whitefish and a Flathead County update of its growth policy, the department developed a neighborhood plan for approximately 13,000 acres. This plan was completed and approved by the Board of Land Commissioners in July 2005.

Wind Energy

Judith Gap Wind Farm

The first lease for a wind farm on state land was signed on September 20, 2004. Wind Park Solutions Arcadia has since sold its interest in the 150 megawatt Judith Gap wind farm to Invenergy, a wind-energy development company based in Chicago. In March 2005, the Montana Public Service Commission (PSC) met and heard testimony regarding sale of electricity produced at the Judith Gap Wind Farm to Northwestern Energy. The PSC ruled later that month in a 4-1 vote to grant “pre-approval” for the contract with Invenergy. Construction started in late spring 2005 and project organizers anticipate that the wind farm will be operational by the end of 2005.

Valley County Wind Energy Project

Public comment scoping meetings were conducted in May in Glasgow and Helena for the Valley County Wind Energy Project (VCWEP). Although the federal Bureau of Land Management has the largest land ownership stake in the VCWEP, state-owned lands still comprise nearly 2,000 acres in the project, according to estimates by Windhunter, the company developing the wind farm. The wind farm is designed to go up in four phases. By the time the fourth phase is complete in 2016, 43 wind turbines will operate on state land, and all 134 turbines in the project will generate 500 megawatts of electricity.

Marketing

The Real Estate Management Bureau is implementing new marketing strategies. The bureau is reaching out to community leaders outside of the real estate community. These contacts include business development professionals, lenders, civic organizations, and others. The goal is to keep a wide base of people apprised on the availability of state lands for development, which will allow more people to be aware of and consider state lands for commercial, industrial, and residential development.

The bureau has produced a brochure to help market two lots on Missoula’s Reserve Street. Designed as a promotional item for direct mailings and personal contacts, the brochure will be a handy and visually appealing quick reference for the Reserve Street lots. Based on responses to this brochure, the bureau will develop other brochures to promote properties in the Billings and Bozeman areas.

Programmatic Plan

In November 2004, the bureau released the Final Programmatic Environmental Impact Statement, which included a preferred alternative for selecting and managing real estate activities on state trust lands. The director signed a Record of Decision for the Final Environmental Impact Statement in July 2005. This document will serve as the Real Estate Management Plan for trust lands. The plan will provide the bureau with consistent policy, direction, and guidance in its management of real estate activities on the state's 5.1 million acres of state trust lands and for development of commercial, industrial, residential, and conservation uses.

Exchanges

The department reviews and processes land exchanges for the Board of Land Commissioners under a land exchange policy. In FY 2005, the bureau received two new applications and supported three land exchanges in association with the field offices.

Land Sales and Acquisition

The 2003 Legislature passed House Bill 223, which enables the Board of Land Commissioners to sell parcels of state trust land and purchase replacement land. In September 2004, the Board of Land Commissioners gave final approval to the Land Banking Rules, under which the trust land lessees received information from the department describing how they could nominate their leases for sale. Nominations were accepted between October 1, 2004, and January 31, 2005. Nominations were received for the sale of approximately 118,858 acres of trust land, of which 24,503 acres received preliminary approval for sale by the Board of Land Commissioners. The parcels will be appraised during the summer and fall of 2005 with the goal of beginning to sell trust land during fall/winter 2005-2006. In addition to selling land, the department will acquire land to replace, that which is sold. Land acquired must meet specific requirements for income generation and accessibility to the public, among other desirable characteristics. The department will work with the real estate community and other interested parties to acquire productive agricultural or timber/recreational land with good public access and higher income potential than the land being sold. Information on the Land Banking Program is available at:

www.dnrc.mt.gov/trust/land_banking/

Nontrust Land Activity

The department is responsible for maintaining ownership records of nontrust lands owned by other agencies excluding Montana Fish, Wildlife & Parks and Department of Transportation. The bureau facilitates transactions such as land sales and leases/licenses between state agencies and interested parties.

In FY 2005, the department facilitated the following transfers of surplus state property:

Department of Corrections:

- Jefferson County Fairgrounds and land contiguous to the county shops for a stockpile to the county.
- One half of the football field to the Jefferson School District.

Department of Natural Resources and Conservation:

- Land in Missoula to the Department of Military Affairs for a veterans' cemetery.
- Easement to the city of Missoula for a pedestrian bridge across the Clark Fork River.
- Water pipeline easement across the Bigfork River to the Bigfork Water and Sewer District, (navigable rivers are considered nontrust land).

Department of Military Affairs (DMA):

- National Guard Armory to the city of Dillon and the Beaverhead School District as a transportation complex.
- Land from the city of Dillon to DMA; land adjacent to DMA's remaining three acres to be used for a new armory.

The bureau is continuing to work on several projects for various state agencies.

Recreational Use

The Recreational Use Program was established by the 1991 Legislature and became effective March 1, 1992. Persons 12 years of age and older who possess the appropriate type of access license may engage in most types of recreational activities on legally accessible state lands, providing those lands have not been closed or use otherwise restricted either by rule or by the department. By definition, recreational use is divided into two categories, "general" and "special". The type of license required depends on the type of activity conducted. "General" recreational use includes, with the exception of a few specific activities, most forms of noncommercial and nonconcentrated recreational activities. From 1992 through February 28, 2004, use of state land for general recreational activities was authorized under State Land Recreational License, which is available from Montana of Fish, Wildlife & Parks license providers. However, the 2003 Legislature, with passage of Senate Bill 130¹, changed the licensing structure for general recreational use. Effective March 1, 2004, under terms of an agreement between DNRC and FWP, use of state lands for licensed hunting and fishing is now included when purchasing a Conservation License. The cost of that license was increased by \$2 to cover the fee for such use. The fee for trapping on state land is also included in the Conservation License; however, trapping requires specific authorization from DNRC as explained below. All other types of general recreational activities still require purchase of a State Land Recreational License.

1. As a result of SB 130, trust revenues associated with recreational use licensing increased substantially from \$558,690 in FY 2003 to \$981,052 in FY 2005.

‘Special’ recreational use licenses are available only from DNRC area offices. They are required for concentrated recreational use conducted by groups or organizations, or for commercial activities such as outfitting, trapping, and for various other types of recreation falling outside of the authority included under general recreational use.

Rights-of-Way/Easements

In FY 2005 the department presented 377 right-of-way applications to the Board of Land Commissioners for approval. Of these, 296 were historic easement applications submitted under MCA 77-1-130, which provides that “a person or county may apply to the department for a historic right-of-way deed to provide access to the applicant’s private property, to provide continuation of a county road, or to provide for authorization of existing utilities”.

Rights-of-way generated \$1,068,335 in FY 2005. Historic rights-of-way contributed \$106,318 for the state permanent trust beneficiaries, while other non-exclusive easements for access roads and utilities generated \$900,899. The majority of the income for the nonexclusive easements stem from an easement granted for the new Glacier High School in Kalispell. The 60-acre easement was purchased for \$600,000. Easements granted across the state’s navigable waterways and lands owned by other state agencies totaled \$48,468. This income was earmarked for the state’s general fund.

Central Land Office



The Central Land Office represents the department in a 14-county geographic area east of the Continental Divide. Unit offices are located in Bozeman, Conrad, Dillon, and Helena.

Activities or projects conducted during FY 2005 include:

- Performed renewal inspections on approximately 275 agricultural, grazing, commercial, homesite, and special leases.
- Completed noxious weed control plans for all 14 counties, emphasizing integrated control techniques and cooperative projects.
- Sold 3.5 million board feet and prepared for sale 4 million board feet of timber in the Helena and Dillon Units.
- Administered the increasing number of oil and gas seismic, leasing, and drilling activities in the Conrad Unit.

- Processed applications for land banking tracts in Madison and Jefferson Counties.
- Annexed and advertised for lease commercial property adjacent to Belgrade.
- Administered contracts for the planned subdivision and annexation of state land adjacent to Bozeman.
- Administered 46 active Special Recreational Use Licenses for outfitting and 211 Land Use Licenses within the land office.

Eastern Land Office



The Eastern Land Office represents the department in 11 counties: Rosebud, Powder River, Custer, Garfield, McCone, Carter, Dawson, Fallon, Prairie, Wibaux, and Richland counties.

The following activities were accomplished during FY 2005:

- Conducted timber sales in FY 2005:
 - o Sand Creek timber sale re-advertisement 464 thousand board feet/3480 tons sold.
 - o Knowlton Exchange timber sale 1.167 million board feet/8753 tons sold.
 - o Moon Creek south salvage permit 26 thousand board feet.
- Evaluated and renewed 280 agriculture and grazing leases.
- Produced weed management plans and bi-annual reports for the 11 counties.
- Completed field reviews, including environmental assessments, on 35 oil and gas leases, 22 oil and gas wells and pipeline sites, and 3 seismic projects.
- Conducted Land Banking Program activities:
 - o Preliminary Evaluations and contacts, approximately 125.
 - o Land Bank lease nominations approximately 80.
 - o Land Banking nominated parcel environmental review (MEPA), Environmental Assessments checklists prepared, 49.
 - o Total acres from Custer and Garfield Counties nominated, 18,865 acres.

Northeastern Land Office



The Northeastern Land Office represents the department in Hill, Blaine, Phillips, Valley, Daniels, Sheridan, Roosevelt, Petroleum, Fergus, Judith Basin, Wheatland, and Golden Valley counties.

The following activities were accomplished in FY 2005:

- Completed inspections on 603 state trust land parcels. Management plans were created for identified problem tracts. Emphasis was placed on assuring that irrigated agricultural tracts were managed to their potential. A pilot project was undertaken to test whether the active marketing of grain and alternative crops would create additional profit to the trust beneficiaries.
- Managed extensive oil and gas exploration and development activities throughout the land office area. Oil and gas activity spread to areas that have not seen active development in the past. The decorative rock business continued to expand in Wheatland County.
- Conducted the Middle Fork Spring Creek timber sale and North Fork of Flatwillow timber sale logging operations.
- Accepted land banking nominations throughout the land office area. Applications meeting sale criteria were approved for appraisal in Chouteau County.
- Monitored the Invenenergy Corporation's construction of the 150 megawatt Judith Gap wind farm. Fifteen wind turbines are under construction on state land. The Valley County wind project entered into the initial analysis phase of development.

Northwestern Land Office



The Northwestern Land Office represents the department in Flathead, Lincoln, Sanders, Lake, and Missoula counties. Unit offices are located in Libby, Plains, Olney, Kalispell, and Swan Lake.

The following activities were accomplished during FY 2005:

- Prepared 34,015 thousand board feet of timber sale and timber permit volume for sale.
- Harvested 36,909 thousand board feet of timber.
- Completed 18 major real estate actions including:
 - Whitefish Neighborhood Plan addressing 13,000 acres of state land, approved by the Board of Land Commissioners, Flathead County, and the City of Whitefish.
 - At Spring Prairie (Section 36) in Kalispell:
 - Lowe's opened for business in October 2004.
 - Costco is constructing the infrastructure and building, and expects to open in fall 2005.
 - KVH Development Company and Sterling Hospitality Management were awarded a two acre lease to develop a Holiday Inn Express Hotel.
 - Fire Station easement granted (1.9 acres).
 - Owl Corporation utility easement granted (sewer and water to subdivision which enhances availability of sewer and water to the NW1/4 of Spring Prairie).
- Issued five small volume permits for decorative rock and gravel; issued four large volume permits for decorative rock.
- Acquired two reciprocal accesses totaling 23.44 miles (East of 83 and Dern Draw); two cost-share accesses totaling 7.46 miles; three private access acquisitions totaling 11.85 miles.
- Processed 23 temporary road use permits.
- Completed regeneration surveys on 74 acres; planted trees on 458 acres (119,701 trees planted); pre-commercially thinned 1,494.6 acres; sprayed 3,306.5 acres for noxious weeds; completed road maintenance on 28 miles of road; inventoried and entered 316 miles of road in an inventory database.

Southern Land Office



The Southern Land Office represents the department in Sweet Grass, Stillwater, Carbon, Musselshell, Yellowstone, Big Horn, and Treasure counties.

The following activities were accomplished during FY 2005:

- Performed inspections on grazing leases, homesites, and special leases/licenses up for renewal. Any problems identified were followed up with management plans.
- Completed noxious weed control plans for all seven counties with an integrated weed control plan of spraying and biocontrol.
- Monitored the Pine Summit timber sale in Musselshell County, which is being logged in the Bull Mountains.
- Processed applications for land banking tracts in Treasure County.
- Developed two more sections of land for coal bed methane in Big Horn County with planning in progress for additional projects.
- Processed applications for new easements, land use licenses, and special recreational use licenses.
- Administered three contracts for Skyview Ridge in the Billings Heights for a master plan revision, zoning, annexation, and minor subdivision.

Southwestern Land Office



The Southwestern Land Office represents the department in Mineral, Missoula, Ravalli, Powell, Granite, Deer Lodge, and Silver Bow counties and Lewis and Clark County west of the Continental Divide. Unit offices are located in Missoula,

Hamilton, Anaconda, and Clearwater with field stations in Lincoln and Garrison.

In FY 2005, the Southwestern Land Office accomplished trust land program objectives in forest management and improvement, grazing, minerals, and real estate management. The following are some noteworthy highlights:

- Salvaged both fire and insect damaged merchantable timber.
- Cooperated with local and state governments, organizations, private landowners, and lessees in meeting common weed management goals.
- Pursued several land exchanges that will increase trust land assets in value, acreage, blocked ownership, administrative and public access, and efficient management.
- Pursued reciprocal access exchange or purchased access to provide effective management of trust lands and public access to those lands where possible.
- Began a Request For Proposal for commercial leasing of Reserve Street property in Missoula.
- Participated in the creation and future management of the Blackfoot Community Conservation Area.
- Planted tree seedlings on 640 acres (200,000 trees) in burned areas within the Sula State Forest as part of the burned area recovery process.
- Spent \$60,000 to reclaim an abandoned gravel pit site where illegal trash dumping, shooting, and off-road vehicle use were problems. Secured grant monies for a portion of these costs.



DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
1625 11TH AVENUE P.O. BOX 201601
HELENA, MONTANA 59620-1601

Persons with disabilities who need an alternative, accessible format of this document should contact DNRC at the address shown. Phone 406-444-2074 or fax 406-444-2684.

175 copies of this document were printed at an estimated cost of \$2.02 per copy. The total cost of \$353.00 includes \$353.00 for printing and \$00 for distribution.

Photos courtesy of Travel Montana, David Greer, Hoyt Richards, Tom Hughes, Dan Bushnell and DNRC staff.